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STATE OF CONNECTICUT
INSURANCE AND REAL ESTATE COMMITTEE

HB 6444, AN ACT CONCERNING AUTOMOBILE INSURANCE

February 17, 2009

Statement of the American Insurance Association

This statement is submitted by the American Insurance Association (AIA). AIA is a national trade association representing 350 property-casualty insurance companies that write automobile insurance in every U.S. regulatory jurisdiction. AIA members write 28% of the personal auto insurance and 40% of the commercial auto insurance in the state. As importantly, because Hartford remains one of the global insurance centers, insurers provide significant value to the Connecticut economy, in terms of jobs, and are major financial contributors to the state's economy.

These companies have a long term commitment to the state and its people demonstrated each day through the months, years, decades and even centuries. They have a common interest with you to help assure an insurance system that serves the public well. Your efforts and that of our companies have achieved just that through a careful balance of regulation and competent business management. Now, especially, is not the time to upset that delicate and hard won, balance. Yet House Bill 6444, An Act Concerning Automobile Insurance, would do just that.

Connecticut's Auto Insurance System Serves Consumers Well, By Every Accepted Measure.

Connecticut's auto insurance is relatively affordable. The average auto insurance expenditure, for the most recent year available, ranked 23rd in the country, a good performance considering it is a highly urbanized state with high insurance mandates. When seen in the light of median family income, it ranks an even better 31st.

Connecticut's auto insurance is readily available. A good measure of insurance availability is the extent of the residual market, composed of vehicle owners who cannot buy insurance from a regular company. 2.4 million cars are insured in the voluntary market, while only a few thousand are in the residual market. Also in terms of uninsured motoring, Connecticut ranks 36th with 9.4%, based on the Insurance Research Council's methodology.

Connecticut's auto insurance market is very competitive. Using the Herfindahl-Hirschman Index (HHI), a widely accepted measure of competition, the state ranks 49th out of 50 in terms of concentration, meaning it is extraordinarily competitive.

Although Well-Intentioned, The Proposed Legislation Would Actually Degrade the Current Well-functioning System.

House Bill 6444 would degrade risk based pricing in several critical ways, making Connecticut a national outlier. The state already artificially subsidizes higher cost policyholders with its 75/25 formula. This would be exacerbated by the movement to 50/50 mandated by Section 1, even though it is not based on objective, actuarial reality and would create rates that are even more excessive for many more consumers, inadequate for some and unfairly discriminatory for all, thereby violating the generally accepted standards for risk based pricing in Connecticut's and most other state's basic insurance regulatory laws. Overwhelmingly, other states have not interfered to that extent in risk based pricing. This change, regardless of how phased in, will damage the credibility of the system by arbitrarily reducing the importance of relevant risk assessment. It will also cause significant market disruption and add significant costs to insurance to pay for the annual changes.

Section 2 of the bill would ban credit-based insurance scoring (CBIS), thereby making Connecticut an outlier and degrading its auto insurance system. The current health of Connecticut's insurance market is correlated with the introduction of credit-based insurance scores. And, 46 other states allow it and regulate it, as does Connecticut.

There have been many public and private studies of CBIS and they all demonstrate that CBIS adds significant accuracy to risk assessment and pricing and encourages availability and affordability. The Federal Trade Commission (FTC) conducted the most recent one, issued in July 2007. The FTC's essential findings, in our view, are as follows:

- "A consistent finding of prior research and the FTC's analysis is that credit information, specifically credit based insurance scores, is predictive of the claims made under automobile policies." And, "...risk prediction is an important method of competition among insurance firms." Page 20 of the FTC report.
- The benefits of credit-based insurance scoring to the market are many and were validated by the FTC report:
    - ☐ More accurate risk assessment and pricing result.
    - ☐ Availability of insurance improves because insurers can confidentially write virtually every risk because they have reliable, objective information, a significant improvement over older practices.
    - ☐ A majority of customers pay less as a result of credit based insurance scoring. The FTC estimates that 59% would pay less if credit based insurance scores are used. Page 38 of the FTC

report. Even higher percentages have been reported for some companies. Furthermore, based on a recent Arkansas study, many of the remaining 41% of customers would not pay more.

- Insurers do not collect or use information on the race, ethnicity or religion of applicants or policyholders. Page 75 of the FTC report.
- The effect of banning credit-based scores was also considered. The FTC concluded that: "Banning the use of factors that are known to be correlated with risk could have negative effects on insurance markets." Page 47 of the FTC report.

Eliminating CBIS, as proposed in the legislation, will harm the majority of Connecticut policyholders, do damage to the fundamental fairness of risk based pricing and result in arbitrary insurance rates—exactly what the public policy of the state has previously sought to prevent. In total, the bill would virtually eliminate risk based pricing, likely result in massive and unwarranted rate increases for the majority of consumers, and add huge new costs to make the mandated transitions. All of these negative consequences are particularly inappropriate for a system, such as Connecticut's auto insurance market, that is functioning very well.

Conclusion

While we appreciate the underlying motivation of the legislation, the fact is that it will harm, not help, the vast majority of Connecticut auto insurance consumers. Especially in today's uncertain times, upsetting the balance of the parts of the system that are working well for most people is of particular concern. While we are always open and willing to work with you to address issues, we urge you to reject House Bill 6444.